

UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration  
Washington 25, D. C.

July 30, 1946

To: All REA Borrowers, System Engineers,  
Contractors, Material Suppliers, and  
REA Field Construction Engineers

From: Claude R. Wickard, Administrator

Subject: Policy of Rural Electrification Administration with  
Respect to Material Prices for Construction of  
Distribution Lines

The tremendous demands of the REA program for construction materials and the inability of manufacturers to attain production of sufficient volume creates a situation whereby delays of from six to eighteen months in the deliveries of materials are to be expected.

Almost without exception suppliers are demanding that orders for materials be placed subject to a price adjustment at the time of delivery without the privilege of cancellation if such price adjustment were unsatisfactory to the buyer. This is known as "blank check buying."

While we are confident that volume production of construction materials will make it possible to maintain reasonable prices, there is grave danger that the failure on the part of some suppliers to exercise self-restraint as price controls are progressively removed may result in temporary price increases of such proportions that the self-liquidity of some of our construction loans will be jeopardized.

It is therefore incumbent upon me as Administrator under the R. E. Act and upon REA borrowers and contractors as major purchasers of line construction materials to resist vigorously exorbitant prices.

Therefore, the following policy with respect to material prices for construction of distribution lines is made effective at once:



### 1. Labor and Material Contracts

Labor and material contracts already approved by the Administrator and labor and material contracts which are otherwise satisfactory and awaiting the approval of the Administrator shall be re-examined for the purpose of:

- a. Determining that the assured delivery dates of materials will not extend beyond a period of reasonable expectancy of price controls.
- b. Determine that the maximum amount of funds required for the purchase of materials will not adversely affect the ability of the borrower to discharge its obligations to the Government or its ability to complete a future construction program on an area coverage basis.

Where it is determined that schedules of deliveries extend beyond a period of reasonable expectancy of price controls or where the ability of a borrower to properly discharge its obligations to the Government or to complete its future program of construction on an area coverage basis would be adversely affected by increased material prices, the Administrator will cause such revisions of the construction contract to be made as may be necessary to preserve the feasibility of the loan.

### 2. Material Contracts - Form DS 18E3

Material contracts will be subject to re-examination for the purposes stated in (1) above and will be treated in the same manner as Labor and Material Contracts.

### 3. Open Account Orders

Open account orders must be limited to the purchase of materials not in excess of approved normal inventories.

4. It is requested that all REA borrowers and contractors furnishing materials to be used in the construction of REA-financed distribution lines insist that suppliers of materials accept the following provision on all orders for materials.

"If the prices quoted herein are subject to adjustment to conform to the Seller's prices in effect at the time of shipment of materials, the Seller shall give written notice to the Purchaser of any increase in excess of the

prices quoted herein at least 20 days prior to shipment. The Purchaser shall have the right to cancel this Order within 10 days after receipt of such notice."

*Claude R. Wickard*



